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THE FUTURE FOR AGRICULTURAL EXPORTS

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Participation of the Economic Research Service in comprehensive river basin planning presents economists with a challenge. That challenge is to develop economic intelligence that is useful in the formulation of plans for effective development and use of the Nation's water and related land resources. We in the Economic Research Service are well aware of the responsibility we bear as participants in river basin studies. We continually seek to develop improved methods with which we can get our jobs done.

Our participation in these studies presents us with a real, and often exciting opportunity to apply results and methodologies developed in our regular research program to the problems encountered in comprehensive river basin studies. At times, these results cannot be applied directly so they must be adapted to changed conditions or alternative sources of data. However, use of ingenuity to adapt methodologies and techniques to available data is not new. The need for adaptation was recognized early by your Guidelines for Framework Studies, incorporated in your Outline of Work for the Missouri Basin Study. Accomplishing these transformations of data and procedures is frequently an exciting aspect of our responsibilities in these studies.

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These responsibilities, as most of you know, include a number of activities. They range from developing projections of economic activity in agriculture through the analysis of the impacts upon agriculture of alternative resource development proposals. References to studying impacts are made in several parts of your Outline of Work. We are most interested in the procedures and methodology that you use for impact studies as they represent a vital element in the resource planning process. We have gained experience in other regional studies that will help in this work, and by the same token, we expect the experience here to assist in future studies.

My primary purpose in being here today is to discuss one aspect of our responsibilities -- that is, developing projections of activity in the agricultural economy. I was asked to discuss the role of agricultural exports in these projections.

The precise nature and extent of foreign markets for our agricultural products depend on many complex and often interrelated factors. Projections must be based on good economic analyses and on substantial understanding of domestic and foreign policy regarding production, trade and fiscal management. The foreign policy elements involve governments of other nations -- competitors as well as customers -- in addition to our own. These latter elements do not lend themselves to formal analyses; nevertheless, they must be considered and some fundamental facts concerning them must be established if projections are to be made.

On his return from the recent 14th conference of the Food and Agriculture Organization in Rome, Secretary Freeman commented that there is an "inseparable relationship between agriculture in the United States and the needs of a hungry

world. We live in a world of compressed space, one in which it is no longer possible to separate agricultural policy into tidy compartments -- label them 'domestic farm programs,' 'foreign aid,' 'commercial sales' -- deal with them as separate entities. All are inseparable parts of the whole." It is important to view our projected agricultural export market not only in relation to United States agricultural production, but also, in relation to the capabilities, needs and demands of the rest of the world. The remainder of my comments will be oriented that way. First, I will briefly describe our recent experiences in the foreign market and discuss some implications for the immediate future. This will include some comment about current and emerging conditions of foreign trade that have implications for the longer range projections.

Our export market for farm products has grown. From a level of under a billion dollars in 1940 the value of our agricultural exports grew to \$6.8 billion last year and will hold at about that level this year. Exports under various kinds of public assistance helped boost this total especially beginning with the original PL 480 in 1957. However, in recent years the growth in exports has been in commercial sales with concessional exports holding fairly constant at about \$2 billion annually.

Exports play an exceedingly important role in our modern agricultural economy. The product from one in every four acres of cropland is marketed abroad. Without exports or even with a little less exports than we now have, the pressure of our supplies on domestic markets would be grave indeed.

Somewhat more than one-half of the wheat sold by U.S. farmers in the 1966-67 season entered the export market. Almost half of the grain sorghum sales and nearly two-fifths of the soybeans, including oil, were exported. Wheat, feed grains and oilseeds each accounted for more than a billion dollars in exports last year.

However, our products meet stiff competition in foreign markets. In 1966, the value of the world's agricultural exports was estimated to be \$33.9 billion. Only \$6.2 billion of this total was in products not competitive with our own. Competition among exporters for the world market is expected to grow stronger.

Finally, in this brief look at selected statistics about the agricultural export situation, I should mention world agricultural production. During the past 10 years total food production in the less developed countries increased about as rapidly as in the developed countries. In both groups of countries total food production increased by about a fourth. However, because of differences in the rate of population growth, per capita food production increased in the developed countries during the period, but remained about constant in the less developed countries.

At the recent Annual Agricultural Outlook Conference sponsored by the U.S. Department of Agriculture, the outlook for agricultural exports in the near future was characterized as conservative. The additions that we make to our total agricultural exports in the years immediately ahead will come harder than those of the years just passed. The underlying reasons for this view are imbedded in four general categories of factors that influence the size of our exports. These may be grouped into: competition, food aid, sanitary regulations and protectionism. I haven't time to discuss these in detail but I shall comment briefly on each for they have an influence on longer run projections.

Competition really needs little explanation. We are facing stronger competition in the world market place from developed countries and from less developed countries that export grains. There are many reasons -- increasing

production in many countries, the absence of Mainland China as a buyer this year, increasing need by some countries for hard-currency foreign exchange, and others.

Such countries as Yugoslavia and the United Arab Republic are not receiving food shipments under Public Law 480 this year. The additions to, or deletions from, the list of countries receiving such food aid can change rapidly for a variety of reasons and the quantities shipped also can change sharply. I'll have more to say on this point later.

Our food must meet sanitary regulations of customer countries. Otherwise, our products are excluded. For example, there is some indication that our program for control of Newcastle disease may keep our poultry products out of Japan. Many of these sanitary regulations are necessary, well constructed, and reasonable. However, some seem designed to limit imports more than to protect consumers.

Protectionism includes governmental actions to set aside conventional rules of international trade in an effort to solve domestic problems. The recent Kennedy Round of GATT made substantial progress in liberalizing trade in agricultural products. Even so, substantial restraints on trade remain. These restraints stem from efforts of trading countries to develop their own production, to increase their level of self-reliance, to protect incomes of producers, and to conserve foreign exchange. Protectionism in one form or another appears in a great many countries.

A great deal is known about the above factors and about their effects on foreign markets for our agricultural products. By and large, they lend themselves to economic analyses. Even so, precise levels of future exports cannot

be quantified easily nor can projections be made with certainty. However, we recognize that development plans for water resources must be based upon the best information available. Factors affecting foreign trade must be considered in making long-run projections which are used in appraising resource development programs.

In a speech given at the recent Outlook Conference, Secretary Freeman discussed some of the problems of agricultural income and alternative solutions. A portion of his comments are important to our understanding of the long range future for agricultural exports. He said "... There are a great many who feel that, somehow, we can find our salvation in an unlimited overseas concessional market. Unfortunately, this isn't true.

"First of all, the amount of food that can move in aid programs is limited by several very practical factors. These include the ability of the developing nations to handle such food -- dock, storage, and distribution facilities -- the amount that can be absorbed without complete disruption of their own agricultural development, and the extent to which political leaders in these nations will permit their countries to become dependent on United States food.

"On agricultural development rests all subsequent economic development in the less-developed nations. The Congress wisely recognized this basic truth when they wrote self-help requirements into the new Food for Freedom legislation, making it very clear that aid must help -- not hinder -- development. Hence, food aid must be used with skill and economic understanding as well as compassion.

"Second, the mirage of an unlimited overseas demand overlooks the findings of a recent USDA long-range study of the world food situation through 1980, one that showed more continuing world capacity to produce grain than effective world demand can absorb at stable prices. Strong competition in commercial markets will continue and so will the potential for overproduction, for a long time to come."

A complete discussion of the long range world food situation is impossible in the time allotted to me. I will simply assume that you are aware of the concern expressed in many quarters about the ability of the world population to feed itself and of the factors contributing to the problem. Provision of adequate food for the future requires: (1) reducing the rate of growth in population, (2) expanding food production through increasing cultivated areas and yields, and (3) developing the economic capacity to purchase needed food supplies. All three approaches will be required, although the relative importance of each may vary among countries.

Progress is being made on all three of the requirements just mentioned. Donald J. Bogue, Director, Community and Family Study Center, University of Chicago, stated last year that the trend of world-wide movement toward fertility control has already reached a state where declines in death rates are being surpassed by declines in birth rates in some countries. The world has entered a situation where the pace of population growth has begun to slacken. He says that the rate of growth will slacken at such a pace that it will be zero or near zero by about the year 2000. By then population growth may not be regarded as a major social problem, except in isolated and small "retarded" areas. Not all demographers agree with Dr. Bogue but most now feel that mankind will limit population growth in preference to mass starvation.

The projections of world population contained in the USDA report referred to by the Secretary assume there will be greater efforts in family planning. However, even rapid success of family planning will not affect growth rates much in the next 15 years. A stabilization of the upward trend in population growth rates is projected, in the report, for some regions and a decline in growth rates is projected for other regions by 1980. Thus, the population projections used in that study do not attempt to minimize the impact of population growth on the demand for food.

Expansion of food production in the less developed countries has occurred. More expansion is needed and an increasing number of less developed countries are demonstrating the political will required to achieve accelerated agricultural development. This accelerated development can contribute to increased standards of living in these countries. As agriculture develops the economic capacity of nonfarm people to purchase needed food supplies also increases.

The findings of the World Food Situation study speak directly to these problems and to projections of our own agricultural exports. That study limited itself to an investigation of production of grain because most of man's food comes, directly or indirectly, from grains. Trends in grain production and consumption are a good indicator of trends in the total food situation.

The report examines the grain situation in both developed and less developed countries. Projections of future production assume that world market prices of grains will remain at the average levels of the past three years, and that excess production over consumption at these prices would be withheld from markets in the form of either idled production capacity or increased grain stocks. Four alternative assumptions were made concerning the projected production capability of the less developed countries. These ranged from a

continuation of historical trends in production to a situation of such rapid improvement that output would reach an annual growth rate of four percent by 1975. A single set of production projections was made for the developed countries reflecting the most likely rates of growth.

The results of this analysis indicate several things. First, it confirms results of other studies showing grain import requirements of the less developed countries to increase considerably. The projected 1980 level is nearly double the volume of 1964-65. Second, the report indicates that there will continue to be relatively rapid growth in grain production in the developed countries and in the less developed grain exporting countries -- Argentina, Mexico, Burma, Thailand and Cambodia. The projected balance between the production capability and demand adds up to a surplus capacity in world grain production in 1980. This is likely even if the less developed countries do not improve their present rates of growth in grain production.

A brief summary of implications for the United States suggests that we will be able to increase substantially our grain exports and maintain or increase our share of world grain trade, but still require some controls on grain production. The production resources, particularly land, that will be available for grain production in 1980 will be in excess of demands from all of our likely outlets.

This last condition will occur if our yield projections for the United States are reasonably correct. Attaining these yields depends upon continued development and adoption of production technology and upon development of natural resources. The amount of water resource development needed and its location is not readily apparent. Obviously, some increased agricultural productive

capacity is available from lands now in government programs. However, irrigation, drainage and flood protection of agricultural lands will be necessary to insure an efficient and productive agriculture.

Our domestic and export needs for food and fiber are not unlimited so river basin plans for water resource developments must be analyzed carefully. The combined results of the Type I River Basin Studies and their supporting study of National-Interregional Analysis and Projections should provide more definitive information with which to judge the alternatives and potentials of resource development -- local, regional and national.

I know of very little analytical work dealing with the foreign market beyond 1980. However, projections for 2000 and 2020 are required in your river basin studies. The best approach is to base projections upon a reasonable set of assumptions growing out of current and emerging trends and the benchmarks these trends reveal for at least 15 years ahead. Such a set of assumptions, based upon my earlier comments, might be as follows:

1. Our national policy will continue to stress self-help requirements in less developed countries.
2. This policy, as well as many others, will result in significant increases in food production in these countries.
3. The rate of growth in world population will decline and may approach stability around the year 2000.
4. The United States will face increasing competition for our agricultural products entering foreign trade channels.
5. Foreign governments will limit the extent to which they permit themselves to become dependent on United States food.

At present I see little reason to project significant increases in our exports beyond the 1980 levels. Thus, in our current set of preliminary projections now being used by the Water Resources Council we held the export levels for 2000 and 2020 unchanged from the 1980 level. This is the set of national projections from which base projections for the Missouri Basin Study were derived. It is my hope that the revised projections for the Water Resources Council, now due in December of 1969, will reflect further analyses of future export levels.

In summary, United States production of agricultural products for the export market will increase, at least to 1980, but not without limit. We cannot plan for an unlimited concessional market if we are to face the political and economic realities of world trade. One of the chief problems is how to convert the needs of hungry people to effective economic demand for commodities. American farmers like to produce and can produce much more than they are now doing, but they must also make money at it. The food importing nations must be able to buy at commercial prices or the developed world must be prepared to provide the funds needed to channel food from American farms to consumers abroad. The problem of achieving "freedom from hunger" either here or abroad is not one of limited physical capacity; it is a problem of removing economic inhibitions to production and trade within and among nations.

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